

NEWSLINE

Savings Plus Program

3rd Quarter 2004

Upcoming Changes in SPP

Savings Plus is planning some changes next year to enhance your retirement planning and better serve you. The opportunity arises because several of our contracts expire in 2005, including contracts with many of our investment providers and third-party administrator.

These changes require no immediate action on your part. However, we urge you to keep an eye on *NewsLine* and periodically check our Web site (www.sppforu.com) for updates. We want you to be well informed so you'll know what to expect down the road.

At this time, Savings Plus is preparing what's known as a Request for Proposal (RFP) for each of the expiring contracts, consistent with the State's mandatory competitive bid process. Many of the companies we currently contract with will be eligible to bid for new contracts.

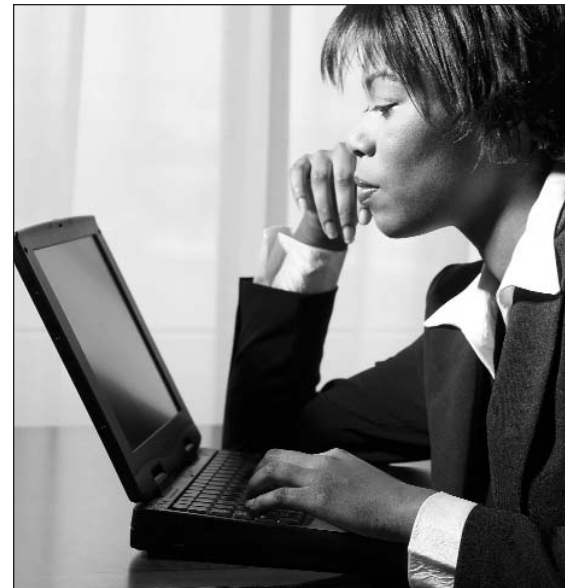
Here's a summary of the contracts we'll put out for bid in 2005.

Investment Choices

The chart on page 2 lists SPP's current fund lineup along with the new lineup we'll roll out in August 2005. Our goal is to offer one choice in each of the style boxes and investment categories listed in the chart's left column. ("Style box" refers to a grid developed by Morningstar that separates stock funds into nine groups based on the size of the companies they invest in and their investment style.) In the case of the large-cap blend category, we'll offer one "passively" managed fund (CalPERS S&P 500 Index fund) and one "actively" managed fund, the latter to be chosen through the RFP process.

Our selection process is aimed at choosing funds with historical rates of return that are above the benchmark for their category, whose fees are low compared to the mutual fund industry average, and that accurately represent the asset class for which the fund is selected.

In addition to adding new investment choices, we'll also drop some of the fund providers due to performance issues or because they no longer represent the asset class we originally selected them for. If you have funds invested in a fund that's dropped from



the lineup, Savings Plus will automatically transfer your assets in that fund to the new investment option for that category.

Third Party Administrator

In March 2005, Savings Plus will select a third-party administrator for the five-year period beginning January 1, 2006. Our current third-party administrator is Nationwide Retirement Solutions, which mails quarterly statements, sends payments, maintains the Savings Plus Web site, and manages our automated phone system.

Stay tuned for more updates on the positive changes coming in 2005.

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Upcoming Changes in SPP

*Where you see RFP listed in the right column, it means we'll seek new fund choices to represent that category, or select a bidder from our current lineup who already represents that category.

Style Box Category	Current Fund	Fund Choices as of August 2005
Fixed Income	Savings Pool	Savings Pool
	American General/VALIC Hartford Money Market Dwight Asset Management	Dwight Asset Management
Bond	Vanguard GNMA Hartford Mortgage Securities HLS Hartford Bond HLS Vanguard Total Bond Market Index (Inst.)	Vanguard Total Bond Market Index (Inst.)
Balanced	Hartford Advisors HLS Janus Balanced	Gartmore Investor Destinations Series - Moderate
Asset Allocation	Gartmore Investor Destination Series	Gartmore Investor Destination Series
Socially Responsible	Domini Social Equity	RFP 2005*
Large-Cap (Value)	Federated Stock Trust American Century Income & Growth	RFP 2005*
Large-Cap (Blend)	Hartford Index HLS CalPERS S&P 500 Index	CalPERS S&P 500 Index
	Hartford Stock HLS MFS Capital Opportunities Hartford Capital Appreciation	RFP 2005* Actively Managed Fund
Large-Cap (Growth)	American Funds Growth Fund of America Janus Twenty MFS Mass Investors Growth Stock Vanguard US Growth	American Funds Growth Fund of America
Mid-Cap (Value)	T. Rowe Price Mid-Cap Value	T. Rowe Price Mid-Cap Value
Mid-Cap (Blend)	Accessor Small to Mid-Cap	RFP 2005*
Mid-Cap (Growth)	Franklin Small to Mid-Cap Growth T. Rowe Price Mid-Cap Growth	T. Rowe Price Mid-Cap Growth
Small-Cap (Value)	Franklin Balanced Sheet Investment	RFP 2005*
Small-Cap (Blend)	JP Morgan Investment Management - Undiscovered Managers Behavioral Value Fund (Inst.)	JP Morgan Investment Management - Undiscovered Managers Behavioral Value Fund (Inst.)
Small-Cap (Growth)	Hartford Small Company HLS	Hartford Small Company HLS
International	Janus Advisors International Glenmede Ins. International/PIA	Glenmede Ins. International/PIA

Investment Fund Update

FUND INVESTIGATIONS

No items to report.

FUND MANAGER CHANGE

No items to report.

WATCH LIST

CRITERIA

Janus Advisers Fund	3*
Janus Balanced Fund	3*
Janus Twenty Fund	3*
Hartford Advisers HLS Fund	1
Hartford Stock HLS Fund	1
Vanguard US Growth Fund	1

*In April 2004, Steve Scheid replaced Mark Whiston as CEO for Janus Capital Group.

WATCH LIST CRITERIA:

- 1 Did not meet the established performance standards (benchmark/peer universe) over preceding 3/5-year period
- 2 Investment manager changed or such change appears imminent; this change may have detrimental effect on fund
- 3 Significant change in ownership or control of the fund provider
- 4 Material change occurred in investment focus/strategy, capitalization, or investment style
- 5 Substantial portfolio turnover within the fund
- 6 Violation of a Security and Exchange Commission rule or regulation
- 7 Fund experienced difficulty transacting trades, fund transfers, or pricing
- 8 Fund experienced problems in procedures or operations, which may detract from Savings Plus objectives
- 9 Violation of contract terms



Watch Your Mailbox for 1099-R

If you received a distribution from your Savings Plus account in 2004, federal law requires that a 1099-R be mailed to you by January 31 of the year following the distribution.

To ensure you receive your 1099-R on time, make sure we have your most current address before the end of the year. If you're expecting a form and don't receive it by February 15, you may request a copy by calling us toll free at 1-866-566-4777. Press *0 to speak to a customer service representative.

Raise Your Contributions for 2005



The 2005 tax year is approaching, which means it's time to think about raising your monthly payroll deferrals to Savings Plus. The limit on how much you can contribute to your 401(k) and/or 457 account goes up to \$14,000 for each plan (from \$13,000 in 2004).

If you're age 50 or older in 2005, you're also eligible to make "age-based contributions" to your 401(k) and/or 457 plan. This amount is in addition to your regular deferrals (see chart).

If you plan to start the 2005 tax year with a higher deferral amount, the deadline to submit the change is as follows:

- If your December paycheck is dated January 1 (most employees), submit your deferral change by 10 am (PT), November 30 (but not before November 1, or it will be applied to the 2004 tax year).

- If your December paycheck is dated December 31, submit your deferral change by 1 pm (PT), December 31 (but not before December 1, or it will be applied to the 2004 tax year).

To change your deferral, simply access your account through the Web site (www.sppforu.com) or use the toll-free automated phone system 1-866-566-4777.

401(k)*	457	401(k) Age-Based Contribution	457 Age-Based Contribution	Combined Limit**
\$14,000	\$14,000	\$4,000	\$4,000	\$36,000

* Limit applies to the combined contributions to a 401(k) and 403(b) Plan (a plan for employees in the education field).

** If you're enrolled in a 401(k) and 457 plan and are eligible to make age-based contributions to both, you may contribute up to this annual contribution limit. If you're only eligible to make regular contributions to both plans, the annual combined limit is \$28,000.

SPP Adds New Fund Choices

Savings Plus recently added three new funds to our lineup representing investment categories we previously didn't offer: Mid-Cap Value, Small-Cap Blend, and Small-Cap Growth. These additions round out our stock fund investment options, giving you more ways to diversify your investments through asset allocation.

T. Rowe Price Mid-Cap Value Fund [TRMCX], in the Mid-Cap Value Equity category, is designed to outperform the Russell Mid-Cap Value Index. To achieve this goal, the fund invests in stocks that are undervalued relative to their perceived intrinsic value. The fund represents a value equity investment style, with price/earnings and price/book ratios less than the Russell Mid-Cap Index.

JP Morgan Investment Management - Undiscovered Managers Behavioral Value Fund (Inst.) [UBVLX], in the Small-Cap Blend Equity category, is designed to outperform the Russell 2500 Index. To achieve this goal, the fund invests in stocks that are representative of a blended or core equity investment style, with price/earnings and price/book ratios similar to the Russell 2500 Index.

Hartford Small Company HLS Fund [HIASX], in the Small-Cap Growth Equity category, is designed to outperform the Russell 2500 Growth Index. To achieve this goal, the fund invests in stocks that are expected to appreciate based on a growth of equity investment style, with price/earnings and price/book ratios greater than the Russell 2500 Growth Index.

When you review your portfolio, consider these new choices. As with any fund, consult the prospectus before you invest, available on our Web site or by phone. To access a prospectus online, log on to your account and select Fund Detail. By phone, call 1-866-566-4777, enter your Social Security number and PIN, press 4, then 2, and enter a fund number from the following list:

Fund	Fund Number
T. Rowe Price Mid-Cap Value Fund	2830
JP Morgan Investment Management - Undiscovered Managers Behavioral Value Fund (Inst.)	2850
Hartford Small Company HLS Fund	2840

A Message for VALIC Investors

Beginning January 21, 2005, the fixed annuity offered by VALIC will be closed to new investments. After that date, if you have paycheck deferrals designated for VALIC, your money will automatically go to the Dwight Asset Management Stable Value fund until you redirect it. You'll also be unable to exchange funds into VALIC after this date.

We're taking this step as a precaution on behalf of our participants who have assets in the VALIC fixed annuity. Under VALIC's contract with SPP, when the contract expires, VALIC has the right to adjust the market value of your assets to reflect changes in the marketplace.

This adjustment could mean either an increase or a reduction in the value of your VALIC investment. Our decision to close the fund to new investments is based on concerns that your investment could be devalued by VALIC's adjustment.

If you're one of the affected participants, expect to receive further information from us at your home address. We'll also provide an update in the next *NewsLine*.

Please refer to SPP rules for changing your investment options or if you have questions about transferring out of the VALIC investment and any related restrictions.



**State of California
Department of
Personnel Administration**

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How to Reach Us

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